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MEMORANDUM RECEIVED

TO: Docket Control

2015 DEC 16 A 10:03

FROM: Thomas M. Broderick
Director
Utilities Division

W. C. Broderick
AZ CORP COMMISSION
DOCKET CONTROL

DATE: December 16, 2015

RE: STAFF REPORT FOR LOS CERROS WATER COMPANY, INC.'S
APPLICATION FOR A PERMANENT RATE INCREASE (DOCKET NO. W-
02747A-15-0293)

Attached is the Staff Report for Los Cerros Water Company's application for a permanent rate increase. Staff recommends approval of the rate application using Staff's recommended rates and charges.

Any party who wishes may file comments to the Staff Report with the Commission's Docket Control by 4:00 p.m. on or before December 28, 2015.

TMB:DWC:red/RWG

Originator: Darron Carlson

Arizona Corporation Commission

DOCKETED

DEC 16 2015

DOCKETED BY	<i>KE</i>
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Service List for: Los Cerros Water Company
Docket No. W-02747A-15-0293

Ms. Jody Carlson, Secretary
Los Cerros Water Company
4003 North Flowing Wells Road, Suite 111
Tucson, Arizona 85705

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Chief Administrative Law Judge, Hearing Division
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**STAFF REPORT
UTILITIES DIVISION
ARIZONA CORPORATION COMMISSION**

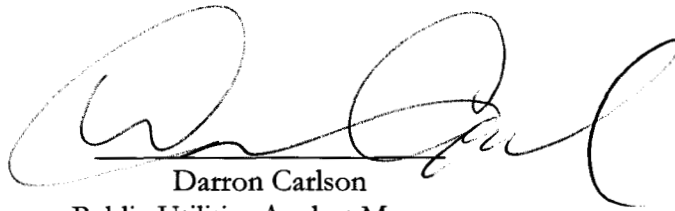
**LOS CERROS WATER COMPANY
DOCKET NO. W-02747A-15-0293**

**APPLICATION FOR A
PERMANENT RATE INCREASE**


DECEMBER 16, 2015

STAFF ACKNOWLEDGMENT

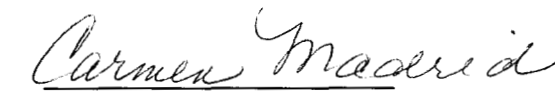
The Staff Report for Los Cerros Water Company ("Los Cerros" or "Company") Docket No. W-02747A-15-0293 is the responsibility of Staff members listed below. Darron Carlson was responsible for the review and analysis of the Company's application, recommended revenue requirement, rate base, and rate design. Dorothy Hains was responsible for the engineering and technical analysis. Carmen Madrid was responsible for reviewing the Commission's records on the Company, determining compliance with Commission policies/rules and reviewing customer complaints filed with the Commission.



Darron Carlson
Public Utilities Analyst Manager



Dorothy Hains
Utilities Engineer



Carmen Madrid
Public Utilities Consumer Analyst

**EXECUTIVE SUMMARY
LOS CERROS WATER COMPANY, INC.
DOCKET NO. W-02747A-15-0293**

Los Cerros Water Company ("Los Cerros" or "Company") is a for profit "S" Corporation and a Class D public service corporation serving potable water to approximately 833 customers approximately fifteen miles north of Tucson, Arizona in Pima County.

On August 18, 2015, the Company filed an application for a permanent rate increase. On September 17, 2015, Staff filed a letter declaring the application sufficient.

The Company proposed operating revenues of \$444,957, an increase of \$94,499, or 26.96 percent, over test year revenue of \$350,458. This provides operating income of \$92,601. The Company proposed an original cost rate base ("OCRB") of negative \$95,471. The Company proposed rates would increase the typical monthly bill for a 5/8-inch meter residential customer, with median usage of 3,000 gallons by \$6.43 or 32.44 percent from \$19.82 to \$26.25.

Staff recommends operating revenues of \$384,708, an increase of \$34,250, or 9.77 percent, over test year revenue of \$350,458. This provides operating income of \$57,809. Staff recommends an OCRB of negative \$101,079. Staff's proposed rates would increase the typical monthly bill for a 5/8-inch meter residential customer, with median usage of 3,000 gallons by \$1.18 or 5.95 percent from \$19.82 to \$21.00 as a partial result of Staff recommending a three tier rate structure.

Since there is no rate of return on rate base, Staff calculated a cash flow allowance of \$91,935 to provide the Company money for contingencies and emergencies.

Staff recommends:

- Approval of Staff's rates and charges as shown in Schedule DWC-4.
- In addition to collection of its regular rate and charges, the Company may collect from its customers a proportionate share of any privilege, sales or use tax, per Arizona Administrative Code ("A.A.C.") Rule 14-2-409(D)(5).
- Directing the Company to docket with the Commission a schedule of its approved rates and charges within 30 days after the date the Decision in this matter is issued.
- Staff recommends the depreciation rates by individual National Association of Regulatory Utility Commissioners category, as delineated in Exhibit 6, of the Engineering Report.
- Staff recommends that the plant items listed in Exhibit B be reclassified for accounting purposes as indicated.
- Directing Los Cerros, as a compliance item in this case, to notify its customers of the authorized rates and charges approved in this proceeding, and their effective date, in

a form acceptable to Staff, by means of an insert in its next regular scheduled billing and to file copies with Docket Control within 10 days of the date notice is sent to customers.

- Directing Los Cerros to file a rate case application no later than five years from the decision date of this application.

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FACT SHEET

Company Statistics:

Rates:

Current Rates: Decision No. 60562 effective January 1, 1998.

Permanent rate increase filed: August 18, 2015

Current Test Year ended: December 31, 2014

Type of Ownership: Arizona "S" Corporation

Location: Los Cerros is located approximately fifteen miles north of Tucson, Arizona in Pima County.

Metered Rates:

	Current <u>Rates</u>	Company Proposed <u>Rates</u>	Staff Recommended <u>Rates</u>
Gallons in Minimum	0	0	0
Monthly Minimum Charge (Based on a 5/8- inch meter)	\$12.50	\$18.00	\$13.65
Commodity Charge (Based on a 5/8- inch meter): Excess of minimum, charge per 1,000 gallons:			
All Gallons	\$2.44	\$2.75	N/A
0 to 3,000 Gallons		N/A	\$2.45
3,001 to 10,000 Gallons		N/A	\$2.75
Over 10,000 Gallons		N/A	\$3.05
Typical residential bill (Based on median usage of 3,000 gallons)	\$19.82	\$26.25	\$21.00

Customers:

Number of customers in the current test year (12/31/2014): 833

Customer notification mailed: September 16, 2015

FACT SHEET, CONTINUED

BILL FORMAT COMPLIANCE

A review of Los Cerros' bill format indicates compliance with R14-2-409.B.2.a thru R14-2-409.B.2.j.

CORPORATIONS AND UTILITIES DIVISION STATUS

The Corporations Division of the Commission reflects that Los Cerros is in good standing and was incorporated on April 28, 1993.

The Utilities Division Annual Report was filed on February 17, 2015 for year ending on December 31, 2014 and is in good standing.

CROSS-CONNECTION / BACKFLOW TARIFF

The cross-connection/backflow tariff for Los Cerros became effective on October 4, 2015.

CURTAILMENT TARIFF

Los Cerros does not have a Curtailment tariff.

SUMMARY OF RATE FILING

On August 18, 2015, Los Cerros Water Company, Inc. ("Los Cerros" or "Company") filed an application with the Arizona Corporation Commission ("Commission") for a permanent rate increase. On September 17, 2015, the Commission Utilities Division Staff ("Staff") determined that the Company's application met sufficiency requirements of the Arizona Administrative Code, Section R14-2-103.

Los Cerros serves an area located approximately fifteen miles north of Tucson, Arizona in Pima County. During the test year, ended December 31, 2014, Los Cerros provided water to 833 customers.

Los Cerros proposed rates would produce total operating revenue of \$444,957 and operating income of \$92,601. The Company's proposed original cost rate base ("OCRB") is negative \$95,471. The Company's proposed rates would increase the typical 5/8-inch meter residential bill, with a median usage of 3,000 gallons, from \$19.82 to \$26.25 for an increase of \$6.43, or 32.44 percent, as shown on Schedule DWC-5.

Staff's recommended rates would produce total operating revenue of \$384,708 and operating income of \$57,809. Staff recommends an OCRB of negative 101,079.

Since rates cannot be based on rate of return due to the negative OCRB, Staff calculated a cash flow allowance of \$91,935 to provide the Company money for contingencies and emergencies as shown on schedule DWC-6. Staff's recommended rates would increase the typical 5/8- inch meter residential bill, with a median usage of 3,000 gallons, from \$19.82 to \$21.00 for an increase of \$1.18, or 5.95 percent, as shown on Schedule DWC-5.

CONSUMER SERVICES

A review of the Consumer Service records showed that for the period January 1, 2012, through September 14, 2015, the following customer complaints were filed against the Company.

2012 – Zero Complaints.

2013 – Four complaints – two billing, one disconnect/termination, one construction.

2014 – One complaint – disconnect/termination.

2015 – One complaint – disconnect/termination.

All complaints have been resolved and closed.

A review of the Company's billing format indicates that it is in compliance with the Arizona Administrative Code ("A.A.C.") R14-2-409.B.2.a thru R14-2-409.B.2.j.

RECOMMENDATIONS FOR MISCELLANEOUS SERVICE CHARGES

Staff recommends elimination of the \$30.00 Establishment Fee (After Hours) tariff and denial of the request for approval of the Credit Card Fee (Per Transaction) of \$1.50 and the ACH (Auto-pay) Fee (Per Transaction) of \$0.75, except if charged to the customer by the vendor and the customer has been advised of the service charge.

Staff agrees with the Company that an after-hour service charge is appropriate when it is at the customer's request. Such a charge compensates the utility for additional expenses incurred when providing after-hour service.

Staff recommends the addition of a Service Charge (after hours) tariff in the amount of \$30.00 and that this charge be in addition to the charge for any other utility service provided after hours at customer's request.

SERVICE CHARGES:	COMPANY PROPOSED	STAFF RECOMMENDATIONS
Establishment	\$20.00	Staff agrees with this fee.
Reconnection (delinquent)	\$25.00	Staff agrees with this fee.
Meter Test (if Correct)	\$25.00	Staff agrees with this fee. ACC provides meter tests at no charge.
Meter Re-read (if correct)	\$25.00	Staff agrees with this fee.
NSF Check	\$15.00	Staff agrees with this fee.
Deferred Payment	1.50%	Staff agrees with this fee.
Deposit		Staff agrees, Per AAC Rule R14-2-403.B.
Deposit Interest (per year)	3%	Staff recommends Per AAC Rule R14-2-403.B.
Re-establishment (within 12 months)	**	Staff agrees, Per AAC Rule R14-2-403.D.
Late Fee	N/A	Staff recommends 1.5% of unpaid balance per month
ADD:		
Service Charge-After Hours (at customer's request)	N/A	Staff recommends a \$30.00 charge

COMPLIANCE ISSUES

The Company has no delinquent compliance items with the Commission's Utilities Division. The Company is current on its property tax obligations.

ENGINEERING ANALYSIS

An inspection of the system was performed by Staff member Dorothy Hains on October 6, 2015. A complete discussion of Staff Engineer's technical findings and recommendations and a

complete description of the water system are provided in the attached Engineering Report (Attachment A).

RATE BASE

Staff reclassified thirteen plant items that resulted in no change in the total plant items of \$1,609,085 as shown on schedule DWC-2, page 2 and Exhibit B. As a result of the plant reclassifications, Staff adjusted the Contributions In Aid of Construction ("CIAC") account by (\$5,608) from the Company's proposed CIAC of \$26,237 to Staff's adjusted CIAC of \$20,629 as shown on schedule DWC-2, page 1. Details of the plant reclassifications are shown on Exhibit B of this Staff Report and on page 11, Section II, Plant Reclassifications, in the Engineer's Staff Report.

Plant Adjustments – As mentioned in the Rate Base summary discussion above, Staff concurred with the Company's test year plant balance of \$1,609,085 as shown on schedule DWC-2, page 2. The only adjustments Staff made to plant were reclassifications which did not change the total plant balance.

Accumulated Depreciation – Staff did not make an adjustment to accumulated depreciation because the adjustment would have been de minimis. Consequently, Staff concurred with the Company's accumulated depreciation balance of \$1,206,049.

OPERATING INCOME

Staff's four operating income adjustments increase the Company's proposed total operating income by \$9,718, from \$21,722 to \$31,440, as shown in schedule DWC-3, page 1. Details of Staff's adjustments are discussed below.

Salaries and Wages – An increase of \$1,088 is a net result of two adjustments in Salaries and Wages. The first adjustment reduced the Company's proposed amount of \$16,360 for Insurance – Health and Life by twenty percent or \$3,272 to \$13,088. The current health insurance plan covers two employees of the Company; Jody Carlson, the Corporate Secretary/Office Manager, and her husband, Steve Carlson. The COBRA insurance will be replaced by permanent insurance through the Affordable Health Care Act which Ms. Carlson expects to be approximately \$12,000 to \$13,000 a year. Staff's twenty percent adjustment ($\$16,360 \times 20\% = \$3,272$) was based on the information provided by Ms. Carlson.

The second adjustment Staff made to Salaries and Wages removed \$12,000 in bonuses. Staff recommends that the recovery of this bonus in rates be rejected. The Company did not respond to the reason why bonuses were paid, what the bonuses are based on and the way bonuses are calculated. Bonuses are also generally considered to be non-recurring, especially when a company fails to provide the basis for the calculation of such bonuses. For this reason, Staff recommends removal of \$12,000 of bonuses that the Company included in Salaries and Wages.

Staff recommends an increase in Salaries and Wages of \$1,088 from \$137,260 to \$138,348 as a result of the two adjustments stated above ($\$16,360 \times 80\% = \$13,088$ less $\$12,000 = \$1,088$) as shown on schedule DWC-3, page 2.

Water Testing – Adjustment B decreases water testing expenses by \$186 from the Company's test year expenses of \$4,784 to reflect Staff's recommended amount of \$4,598. See Engineering Report Table 4 (page 6).

Depreciation Expense – Adjustment C reduced depreciation expense by (\$10,232) from the Company's proposed depreciation expense of \$44,358 to \$34,126 based on Staff's reclassified plant balances and amortization of CIAC as shown on Schedule DWC-3 page 3.

Property Taxes – Adjustment D reduced property taxes by \$388 from the Company's test year expense of \$21,003 to Staff's adjusted amount of \$20,615 as shown in schedule DWC-3, page 4.

REVENUE REQUIREMENT

Staff recommends total operating revenue from permanent rates of \$384,708, an increase of \$34,250 or 9.77 percent, over the test year revenues of \$350,458. Staff's recommended revenue provides an operating income of \$57,809 and a cash flow of \$91,935 as shown in schedule DWC-1 and DWC-6 respectively. Staff's recommended revenue is sufficient to cover operating and maintenance expenses and to manage contingencies.

RATE DESIGN

Schedule DWC-4 presents a complete list of the Company's present, proposed, and Staff's recommended rates and charges.

The Company's proposed rates would increase the typical residential bill with a median usage of 3,000 gallons from \$19.82 to \$26.25, an increase of \$6.43, or 32.44 percent, as shown on Schedule DWC-5.

The Company proposed to maintain an existing commodity flat rate for all meter sizes per 1,000 gallons. The current commodity rates approved in Decision No. 60252 in 1997 is \$2.44 per 1,000 gallons. The Company proposed \$2.75 per 1,000 gallons for all usage and for all meter sizes in the current application.¹

Staff's recommended rates would increase the typical residential bill with a median usage of 3,000 gallons from \$19.82 to \$21.00, an increase of \$1.18, or 5.95 percent, as shown on schedule DWC-5.

¹ Los Cerros has not filed for a rate increase since 1997. In 1997, flat rates for commodity charges was standard practice that the Commission approved for Los Cerros.

Staff recommends a three-tier rate structure for commodity usage with break-over points of 0-3,000 gallons for the first tier, 3,001 -10,000 gallons for the second tier and over 10,000 gallons for the third tier as shown on schedule DWC-5.

SERVICE LINE AND METER CHARGES

Staff and the Company concurred with the changes to the current service line and meter installation charges as shown on schedule DWC-4 and Table 5, page 7 of the Engineer's report.

STAFF RECOMMENDATIONS

Staff recommends:

- Approval of Staff's rates and charges as shown in Schedule DWC-4.
- In addition to collection of its regular rate and charges, the Company may collect from its customers a proportionate share of any privilege, sales or use tax, per Arizona Administrative Code ("A.A.C.") Rule 14-2-409(D)(5).
- Directing the Company to docket with the Commission a schedule of its approved rates and charges within 30 days after the date the Decision in this matter is issued.
- Staff recommends the depreciation rates by individual National Association of Regulatory Utility Commissioners category, as delineated in Exhibit 6, of the Engineering Report.
- Staff recommends that the plant items listed in Exhibit B be reclassified for accounting purposes as indicated.
- Directing Los Cerros, as a compliance item in this case, to notify its customers of the authorized rates and charges approved in this proceeding, and their effective date, in a form acceptable to Staff, by means of an insert in its next regular scheduled billing and to file copies with Docket Control within 10 days of the date notice is sent to customers.
- Directing Los Cerros to file a rate case application no later than five years from the decision date of this application.

LOS CERROS WATER COMPANY, INC.

Docket No. W-02747A-15-0293

Test Year Ended December 31, 2014

Schedule DWC-1

SUMMARY OF FILING

	-- Present Rates --		Proposed		Recommended	
	Company as Filed	Staff as Adjusted	Company as Filed		Staff as Recommended	
Revenues:						
Metered Water Revenue	\$ 343,507	\$ 343,507	\$ 431,207		\$ 380,007	
Unmetered Water Revenue	-	-	-		-	
Other Water Revenues	6,951	6,951	13,750		4,701	
Total Operating Revenue	\$ 350,458	\$ 350,458	\$ 444,957		\$ 384,708	
Operating Expenses:						
Operation and Maintenance	\$ 250,487	\$ 251,389	\$ 274,107		\$ 251,389	
Depreciation	44,358	\$ 34,126	44,358		34,126	
Property & Other Taxes	33,891	\$ 33,503	33,891		33,057	
Income Tax	-	-	-		8,327	
Total Operating Expense	\$ 328,736	\$ 319,018	\$ 352,356		\$ 326,899	
Operating Income/(Loss)	\$ 21,722	\$ 31,440	\$ 92,601		\$ 57,809	
Rate Base O.C.L.D.	\$ (95,471)	\$ (101,079)	\$ (95,471)		\$ (101,079)	
Operating Margin	6.20%	8.97%	20.81%		15.03%	

LOS CERROS WATER COMPANY, INC.

Docket No. W-02747A-15-0293

Test Year Ended December 31, 2014

Schedule DWC-2

Page 1 of 2

RATE BASE

	----- Original Cost -----		
	Company	Adjustment	Staff
Plant in Service	\$ 1,609,085	\$ -	\$ 1,609,085
Less:			
Accum. Depreciation	1,206,049	-	1,206,049
Net Plant	\$ 403,036	\$ -	\$ 403,036
Less:			
Plant Advances	-	-	-
Accumulated Deferred Income Taxes	-	-	-
Total Advances	-	-	-
Contributions Gross	524,744	-	524,744
Less:			
Accumulated Amortization of CIAC	26,237	(5,608)	20,629
Net CIAC	498,507	(5,608)	504,115
Total Deductions	\$ 498,507	(5,608)	\$ 504,115
Plus:			
1/24 Power	-	-	-
1/8 Operation & Maint.	-	-	-
Inventory	-	-	-
Prepayments	-	-	-
Total Additions	\$ -	\$ -	\$ -
Rate Base	\$ (95,471)	(5,608)	\$ (101,079)

[1] Staff did not make an adjustment to Accumulated Depreciation because the adjustment would have been de minimis

PLANT IN SERVICE TEST YEAR ENDING 12/31/14

	Compnay		Staff	
	Plant In Service	Plant Adjustments/	Plant In Service	
	Test Year 12/31/14	Plant Reclassifications [1]	Test Year 12/31/14	
301 Organization	\$ -	\$ -	\$ -	
303 Land and Land Rights	5,650	514 (a)	6,164	
304 Structures and Improvements	16,405	613 (b)	17,018	
307 Wells and Springs	539,075	(23,548) (c)	515,527	
309 Supply Mains	-	-	-	
310 Power Generation Equipment	-	-	-	
311 Pumping Equipment	135,957	(19,096) (d)	116,861	
320 Water Treatment Equipment	-	-	-	
320.1 Water Treatment Plants	-	-	-	
320.2 Solution Chemical Feeder	4,075	70 (e)	4,145	
330 Distribution Reservoirs and Standpipes	55,578	-	55,578	
330.1 Storage Tanks	-	-	-	
330.2 Pressure Tanks	-	6,490 (f)	6,490	
331 Transmission and Distribution Mains	517,697	-	517,697	
333 Services	119,201	19,745 (g)	138,946	
334 Meters and Meter Installations	167,447	239 (h)	167,686	
335 Hydrants	8,957	15,400 (i)	24,357	
336 Backflow Prevention Devices	-	-	-	
339 Other Plant and Misc. Equipment	261	-	261	
340 Office Furniture and Equipment	11,208	(4,300) (j)	6,908	
340.1 Computers and Software	11,557	2,700 (k)	14,257	
341 Transportation Equipment	15,000	-	15,000	
343 Tools, Shop, and Garage Equipment	-	-	-	
344 Laboratory Equipment	-	-	-	
345 Power Operated Equipment	-	-	-	
346 Communication Equipment	-	1,600 (l)	1,600	
347 Miscellaneous Equipment	1,017	-	1,017	
348 Other Tangible Equipment	-	(427) (m)	(427)	
347 Miscellaneous Equipment	-	-	-	
348 Other Intangibles	\$ 1,609,085	\$ -	\$ 1,609,085	
TOTALS				

[1] Plant Reclassification Schedule from Staff Engineer (Attachment A)

LOS CERROS WATER COMPANY, INC.

Docket No. W-02747A-15-0293

Test Year Ended December 31, 2014

Schedule DWC-3

Page 1 of 5

OPERATING INCOME STATEMENT - ADJUSTED TEST YEAR AND STAFF RECOMMENDED

	Company Adjusted Test Year	Staff Test Year Adjustments	Staff's Adjusted Test Year	Staff's Proposed Changes	Staff's Recommendations
Revenues:					
461 Metered Water Revenue	\$ 343,507	\$ -	\$ 343,507	\$ 36,500	\$ 380,007
460 Unmetered Water Revenue	-	-	-	-	-
471 Miscellaneous Service Revenues	6,951	-	6,951	(2,250)	4,701
Total Operating Revenue	\$ 350,458	\$ -	\$ 350,458	\$ 34,250	\$ 384,708
Operating Expenses:					
601 Salaries and Wages	137,260	1,088 (a)	138,348	-	138,348
610 Purchased Water	-	-	-	-	-
615 Purchased Power	36,893	-	36,893	-	36,893
618 Chemicals	1,456	-	1,456	-	1,456
620 Repairs and Maintenance	8,375	-	8,375	-	8,375
621 Office Supplies & Expense	25,153	-	25,153	-	25,153
630 Outside Services	24,273	-	24,273	-	24,273
635 Water Testing	4,784	(186) (b)	4,598	-	4,598
641 Rents	-	-	-	-	-
650 Transportation Expenses	4,414	-	4,414	-	4,414
657 Insurance - General Liability	2,690	-	2,690	-	2,690
659 Insurance - Health and Life	-	-	-	-	-
666 Regulatory Commission Exp.	-	-	-	-	-
675 Miscellaneous Expense	5,189	-	5,189	-	5,189
403 Depreciation Expense	44,358	(10,232) (c)	34,126	-	34,126
408 Taxes Other Than Income	12,888	-	12,888	-	12,888
408.11 Property Taxes	21,003	(388) (d)	20,615	(446)	20,169
409 Income Tax	-	-	-	8,327	8,327
Total Operating Expenses	\$ 328,736	\$ (9,718)	\$ 319,018	\$ 7,881	\$ 326,899
OPERATING INCOME/(LOSS)	\$ 21,722	\$ 9,718	\$ 31,440	\$ 26,369	\$ 57,809

LOS CERROS WATER COMPANY, INC.

Docket No. W-02747A-15-0293

Test Year Ended December 31, 2014

Schedule DWC-3

Page 2 of 5

STAFF ADJUSTMENTS

A	SALARIES AND WAGES	\$	137,260	
	Per Staff		<u>138,348</u>	<u>\$ 1,088</u>
	Staff recommends an increase in Salaries and Wages of \$1,088 from \$137,260 to \$138,348 as a result of two adjustments: (((\$16,360*80%=\$13,088) less \$12,000=\$1,088))			
B	WATER TESTING	\$	4,784	
	Per Staff		<u>4,598</u>	<u>\$ (186)</u>

LOS CERROS WATER COMPANY, INC.

Docket No. W-02747A-15-0293

Test Year Ended December 31, 2014

Schedule DWC-3

Page 2 of 5

STAFF ADJUSTMENTS

A	SALARIES AND WAGES	\$	137,260	
	Per Staff		<u>138,348</u>	\$ <u>1,088</u>
	Staff recommends an increase in Salaries and Wages of \$1,088 from \$137,260 to \$138,348 as a result of two adjustments: (((\$16,360*80%=\$13,088) less \$12,000=\$1,088))			
B	WATER TESTING	\$	4,784	
	Per Staff		<u>4,598</u>	\$ <u>(186)</u>

C	DEPRECIATION - Per Company	44,358	
	Per Staff	34,126	
	To reflect Staff's calculation of depreciation expense.		<u>(\$10,232)</u>

OPERATING INCOME ADJUSTMENT C - DEPRECIATION EXPENSE

LINE NO.	ACCT NO.	DESCRIPTION	UTILITY PLANT SERVICE BALANCE	FULLY/NON-DEPR PLANT BALANCES	DEPRECIABLE PLANT IN SERVICE	DEPREC. RATE	DEPRECIATION EXPENSE
		Plant In Service					
1	301	Organization Costs	\$ -			0.00%	\$ -
3	303	Land & Land Rights	\$ 6,164	5,650	-	0.00%	-
4	304	Structures & Improvements	\$ 17,018		16,405	3.33%	567
5	307	Wells & Springs	\$ 515,527		539,075	3.33%	17,167
	309	Supply Mains	\$ -				
6	311	Electric Pumping Equipment	\$ 116,861	135,957	(19,096)	12.50%	-
7	320	Water Treatment Equipment	\$ -		-	0.00%	-
8	320.1	Water Treatment Plants	\$ -		-	3.33%	-
9	320.2	Solutions & Feeders	\$ 4,145		4,075	20.00%	829
11	330	Distribution Reservoirs & Standpipes	\$ 55,578		-	2.22%	-
12	330.1	Storage Tank	\$ -	55,578	-	2.22%	-
13	330.2	Pressure Tanks	\$ 6,490		-	5.00%	325
14	331	Transmission & Distribution Mains	\$ 517,697		517,697	2.00%	10,354
15	333	Services	\$ 138,946		119,201	3.33%	4,627
16	334	Meters & Meter Installations	\$ 167,686		167,447	8.33%	13,968
17	335	Hydrants	\$ 24,357		8,957	2.00%	487
18	336	Backflow Prevention Devices	\$ -		-	6.67%	-
19	339	Other Plant & Misc. Equip.	\$ 261		261	6.67%	17
20	340	Office Furniture & Fixtures	\$ 6,908		11,208	6.67%	461
21	340.1	Computer & Software	\$ 14,257		11,557	20.00%	2,851
22	341	Transportation Equipment	\$ 15,000		15,000	20.00%	3,000
23	342	Stores Equipment	\$ -		-	4.00%	-
24	343	Tools & Work Equipment	\$ -		-	5.00%	-
25	344	Laboratory Equipment	\$ -		-	10.00%	-
26	345	Power Operated Equipment	\$ -		-	5.00%	-
27	346	Communications Equipment	\$ 1,600	-	-	10.00%	-
28	347	Miscellaneous Equipment	\$ 1,017		1,017	10.00%	102
29	348	Other Intangibles	\$ (427)		-	10.00%	-
			\$ 1,609,085	197,185	1,392,804		\$ 54,755
30		Gross CIAC:	\$ 524,744				
31		Composite Depreciation Rate (Depr Exp / Depreciable Plant):	3.93%				
32		Amortization of CIAC	\$ 20,629				
33		Depreciation Expense Before Amortization of CIAC:	\$ 54,755				
34		Less Amortization of CIAC:	\$ 20,629				
35		Test Year Depreciation Expense - Staff:	\$ 34,126				
36		Depreciation Expense - Company:	\$ 44,358				
37		Staff's Total Adjustment:	<u>\$ (10,232)</u>				
		CIAC Adjustment					
		Company Test Year ending 12/31/14	\$ 26,237				
		Staff Recommended	\$ 20,629				
		CIAC Amortization Adjustment	<u>\$ 5,608</u>				

OPERATING INCOME ADJUSTMENT NO. D - PROPERTY TAX EXPENSE

LINE NO.	Property Tax Calculation	[A] STAFF AS ADJUSTED	[B] STAFF RECOMMENDED
1	Staff Adjusted Test Year Revenues	\$ 350,458	\$ 350,458
2	Weight Factor	2	2
3	Subtotal (Line 1 * Line 2)	700,916	\$ 700,916
4	Staff Recommended Revenue, Per Schedule CLP-1	350,458	384,708
5	Subtotal (Line 4 + Line 5)	1,051,374	1,085,624
6	Number of Years	3	3
7	Three Year Average (Line 5 / Line 6)	350,458	\$ 361,875
8	Department of Revenue Mutilplier	2	2
9	Revenue Base Value (Line 7 * Line 8)	700,916	\$ 723,749
10	Plus: 10% of CWIP -	-	-
11	Less: Net Book Value of Licensed Vehicles	-	\$ -
12	Full Cash Value (Line 9 + Line 10 - Line 11)	700,916	\$ 723,749
13	Assessment Ratio	19.0%	18.0%
14	Assessment Value (Line 12 * Line 13)	133,174	\$ 130,275
15	Composite Property Tax Rate	15.48%	15.48%
16	Staff Test Year Adjusted Property Tax (Line 14 * Line 15)	\$ 20,615	
17	Company Proposed Property Tax	21,003	
18	Staff Test Year Adjustment (Line 16-Line 17)	\$ (388)	
19	Property Tax - Staff Recommended Revenue (Line 14 * Line 15)		\$ 20,169
20	Staff Test Year Adjusted Property Tax Expense (Line 16)		\$ 20,615
21	Increase in Property Tax Expense Due to Increase in Revenue Requirem		\$ (446)
22	Increase to Property Tax Expense		\$ (446)
23	Increase in Revenue Requirement		34,250
24	Increase to Property Tax per Dollar Increase in Revenue (Line19/Line 2		-1.301732%

Recommended Income Taxes

<u>NO.</u>	<u>DESCRIPTION</u>	75% Friedman (Single)	25% Storms (MFJ)
		Test Year	Test Year
	<u>Calculation of Income Tax:</u>		
1	Revenue	\$ 384,708	\$ 384,708
2	Less: Operating Expenses - Excluding Income Taxes	\$ 318,572	\$ 318,572
3	Less: Synchronized Interest (L17)	\$ -	
4	Taxable Income (L1 - L2)	\$ 66,136	\$ 66,136
5	Pro-rata share of income	75%	25%
6	Taxable Income	\$ 49,602	\$ 16,534
7	Federal Income Taxes @ 10%	\$ 4,960	\$ 1,653
8	Arizona State Taxes @ 2.59%	1,285	\$ 428
9	Total Combined Federal & Arizona Taxes	6,245	2,082
10	COMBINED TOTAL FEDERAL & ARIZONA TAXES PAYABLE		8,327
11	Income Tax - Per Staff	\$ 8,327	
12	Income Tax - Per Company	\$ -	
13	Staff Adjustment	\$ 8,327	

Monthly Usage Charge	Present	Company Proposed Rates	Staff Recommended Rates
<u>Meter Size (All Classes):</u>			
5/8 x 3/4 Inch Meter	\$ 12.50	\$ 18.00	\$ 13.65
3/4 Inch Meter	18.75	25.50	18.75
1 Inch Meter	31.25	40.50	31.25
1 1/2 Inch Meter	62.50	90.50	62.50
2 Inch Meter	100.00	123.00	100.00
3 Inch Meter	187.50	263.00	187.50
4 Inch Meter	312.50	390.00	312.50
6 Inch Meter	625.00	781.00	625.00
Commodity Charge			
<u>5/8" X 3/4 " Meter</u>			
All Gallons	2.44	2.75	
0 to 3,000 gallons			2.45
3,001 to 10,000 gallons			2.75
Over 10,000 gallons			3.05
<u>3/4" Meter</u>			
All Gallons	2.44	2.75	
0 to 3,000 gallons			2.45
3,001 to 10,000 gallons			2.75
Over 10,000 gallons			3.05
<u>1" Meter</u>			
All gallons	2.44	2.75	
0 to 10,000 gallons			2.75
Over 10,000 gallons			3.05
<u>1 1/2" Meter</u>			
All gallons	2.44	2.75	
0 to 10,000 gallons			2.75
Over 10,000 gallons			3.05
<u>2" Meter</u>			
All gallons	2.44	2.75	
0 to 16,000 gallons			2.75
Over 16,000 gallons			3.05
<u>3" Meter</u>			
All gallons	2.44	2.75	
0 to 48,000 gallons			2.75
Over 48,000 gallons			3.05
<u>4" Meter</u>			
All gallons	2.44	2.75	
0 to 90,000 gallons			2.75
Over 90,000 gallons			3.05
<u>6" Meter</u>			
All gallons	2.44	2.75	
0 to 160,000 gallons			2.75
Over 160,000 gallons			3.05

	Present	Company Proposed Rates	Staff Recommended Rates
Service Line and Meter Installation Charges			
Establishment Charge	\$ 20.00	\$ 20.00	\$ 20.00
Establishment (after hours)	\$ 30.00	N/A	N/A
Reconnection (Delinquent)	\$ 25.00	\$ 25.00	\$ 25.00
After Hour Service Charge (at customers request)	N/A	N/A	\$ 30.00
Meter Test (if correct)	\$ 25.00	\$ 25.00	\$ 25.00
Meter Re-Read (if correct)	\$ 15.00	\$ 25.00	\$ 25.00
Deposit	*	*	*
Deposit Interest	*	3.00%	*
Re-establishment (within 12 months)	**	**	**
NSF Check	\$ 15.00	\$ 15.00	\$ 15.00
Deferred Payment (per month)	1.50%	1.50%	1.50%
Late Fee Penalty	N/A	N/A	1.50%
Fire Sprinklers	***	N/A	***

* Per Commission Rules A.A.C. (R14-2-403.B)

** Months off system times the minimum (R14-2-403.D)

Monthly Service Charge for Fire Sprinklers

*** 1.00% of monthly minimum for a comparable sized meter connection, but no less than \$5.00 per month. The service charge for fire sprinklers is only applicable for service lines separate and distinct from the primary water service line.

Service Line and Meter Installation Charges

METER SIZE	Company's Current Service Line & Meter Installation Charges	Company Proposed & Staff Recommended Service Line Charges	Company Proposed & Staff Recommended Meter Installation Charges	Company and Staff Proposed Total Charges
5/8 x 3/4-inch	\$240	\$360	\$140	\$500
3/4-inch	\$280	\$360	\$180	\$540
1-inch	\$360	\$380	\$220	\$600
1-1/2-inch	\$450	\$1,000	\$1,000	\$2,000
2-inch	\$560	\$1,100	\$1,200	\$2,300
3-inch	\$700	\$1,200	\$1,900	\$3,100
4-inch	\$1,300	\$1,600	\$3,000	\$4,600
6-inch	\$2,800	\$2,100	\$5,000	\$7,000
Over 6-inch	N/A	At Cost	At Cost	At Cost

Typical Bill Analysis
Residential 5/8 Inch Meter

Company Proposed	Gallons	Present Rates	Proposed Rates	Dollar Increase	Percent Increase
Average Usage	4,000	\$ 22.26	\$ 29.00	\$ 6.74	30.28%
Median Usage	3,000	\$ 19.82	\$ 26.25	\$ 6.43	32.44%
Staff Recommended					
Average Usage	4,000	\$ 22.26	\$ 23.75	\$ 1.49	6.69%
Median Usage	3,000	\$ 19.82	\$ 21.00	\$ 1.18	5.95%

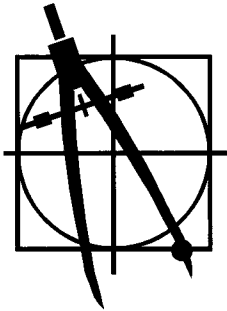
Present & Proposed Rates (Without Taxes)
Residential 5/8 Inch Meter

Gallons	Present	Company Proposed	%	Staff Recommended	%
	5/8 x 3/4"	5/8 x 3/4"		5/8 x 3/4"	
	Minimum Charge \$ 12.50	Minimum Charge \$ 18.00		Minimum Charge \$ 13.65	
	1st Tier Rate 2.4400	1st Tier Rate 2.7500		1st Tier Rate 2.4500	
	1st Tier Breakover 9,999	1st Tier Breakover 9,999		1st Tier Breakover 3,000	
	2nd Tier Rate 2.4400	2nd Tier Rate 2.7500		2nd Tier Rate 2.7500	
	2nd Tier Breakover 99,999	2nd Tier Breakover 9,999		2nd Tier Breakover 10,000	
	3rd Tier Rate 2.4400	3rd Tier Rate 2.7500		3rd Tier Rate 3.0500	

Consumption	Rates	Rates	Increase	Rates	Increase
-	\$ 12.50	\$ 18.00	44.00%	\$ 13.65	9.20%
1,000	14.94	20.75	38.89%	16.10	7.76%
2,000	17.38	23.50	35.21%	18.55	6.73%
3,000	19.82	26.25	32.44%	21.00	5.95%
4,000	22.26	29.00	30.28%	23.75	6.69%
5,000	24.70	31.75	28.54%	26.50	7.29%
5,109	24.97	32.05	28.37%	26.80	7.35%
6,000	27.14	34.50	27.12%	29.25	7.77%
6,435	28.20	35.70	26.58%	30.45	7.96%
7,000	29.58	37.25	25.93%	32.00	8.18%
8,000	32.02	40.00	24.92%	34.75	8.53%
9,000	34.46	42.75	24.06%	37.50	8.82%
10,000	36.90	45.50	23.31%	40.25	9.08%
11,000	39.34	48.25	22.65%	43.30	10.07%
12,000	41.78	51.00	22.07%	46.35	10.94%
13,000	44.22	53.75	21.55%	49.40	11.71%
14,000	46.66	56.50	21.09%	52.45	12.41%
15,000	49.10	59.25	20.67%	55.50	13.03%
16,000	51.54	62.00	20.29%	58.55	13.60%
17,000	53.98	64.75	19.95%	61.60	14.12%
18,000	56.42	67.50	19.64%	64.65	14.59%
19,000	58.86	70.25	19.35%	67.70	15.02%
20,000	61.30	73.00	19.09%	70.75	15.42%
25,000	73.50	86.75	18.03%	86.00	17.01%
30,000	85.70	100.50	17.27%	101.25	18.14%
35,000	97.90	114.25	16.70%	116.50	19.00%
40,000	110.10	128.00	16.26%	131.75	19.66%
45,000	122.30	141.75	15.90%	147.00	20.20%
50,000	134.50	155.50	15.61%	162.25	20.63%
75,000	195.50	224.25	14.71%	238.50	21.99%
100,000	256.50	293.00	14.23%	314.75	22.71%

CASH FLOW ANALYSIS

	Staff Adjusted TY	Staff's Adjustments	Staff Recommended
Cash Inflows:			
1 461 Metered Water Revenue	\$ 343,507	\$ 36,500	\$ 380,007
2 460 Unmetered Water Revenue	-	-	-
3 471 Miscellaneous Service Revenues	6,951	(2,250)	4,701
4 Total Operating Revenue	\$ 350,458	\$ 34,250	\$ 384,708
Cash Outflows:			
5 601 Salaries and Wages	\$ 138,348	\$ -	\$ 138,348
6 610 Purchased Water	\$ -	\$ -	\$ -
7 615 Purchased Power	\$ 36,893	\$ -	\$ 36,893
8 618 Chemicals	\$ 1,456	\$ -	\$ 1,456
9 620 Repairs and Maintenance	\$ 8,375	\$ -	\$ 8,375
10 621 Office Supplies & Expense	\$ 25,153	\$ -	\$ 25,153
11 630 Outside Services	\$ 24,273	\$ -	\$ 24,273
12 635 Water Testing	\$ 4,598	\$ -	\$ 4,598
13 641 Rents	\$ -	\$ -	\$ -
14 650 Transportation Expenses	\$ 4,414	\$ -	\$ 4,414
15 657 Insurance - General Liability	\$ 2,690	\$ -	\$ 2,690
16 659 Insurance - Health and Life	\$ -	\$ -	\$ -
17 666 Regulatory Expense - Rate Case	\$ -	\$ -	\$ -
18 675 Miscellaneous Expense	\$ 5,189	\$ -	\$ 5,189
19 403 Depreciation Expense	\$ 34,126	\$ -	\$ 34,126
20 408 Taxes Other Than Income	\$ 12,888	\$ -	\$ 12,888
21 408.11 Property Taxes	\$ 20,615	\$ (446)	\$ 20,169
22 409 Income Tax	\$ -	\$ 8,327	\$ 8,327
23 Total Operating Expenses	\$ 319,018	\$ 7,881	\$ 326,899
24 Operating Income	\$ 31,440	\$ 26,369	\$ 57,809
25 Plus: Depreciation Expense	\$ 34,126	\$ -	\$ 34,126
26 Less Loan Interest and Fee Payment	-	-	-
27 Less: Loan Debt Service Reserve Payment	-	-	-
28 Less: Loan Principal Payment	-	-	-
29 Cash Flow from Operations	\$ 65,566	\$ 26,369	\$ 91,935



**Engineering Report
Los Cerros Water Company, Inc.
Prepared By
Dorothy Hains, P. E.
Docket Nos. W-02747A-15-0293
(Rates)**

November 13, 2015

EXECUTIVE SUMMARY

Recommendations:

1. Arizona Corporation Commission ("ACC" or "Commission") Utilities Division Staff ("Staff") recommends estimated annual water testing costs of \$4,598 for Los Cerros Water Company, Inc. ("Los Cerros" or "Company"). (See §I and Table 4 for discussion and details.)
2. Staff recommends the depreciation rates by individual National Association of Regulatory Utility Commissioners category, as delineated in Figure 6. (See §J of report for discussion and details.)
3. Staff recommends approval of the meter and service line installation charges listed under the columns labeled "Staff Recommendation" in Table 5. (See §K of report for discussion and details.)
4. Staff recommends that the plant items listed in Table 6 be reclassified for accounting purposes as indicated. (See §K for discussion and details.)

Conclusions:

1. A check of the Commission's Compliance Section database dated November 26, 2014, indicated that Los Cerros had no delinquent compliance items. (See §H of report for discussion and details.)
2. Los Cerros is in the Arizona Department of Water Resources ("ADWR") Tucson Active Management Area. Staff received a Compliance Status Report from ADWR for Los Cerros on August 31, 2015. In its report ADWR stated that the Company is compliant with departmental requirements governing water providers and/or community water systems. (See §G of report for discussion and details.)
3. In a Compliance Status Report dated July 22, 2015, Arizona Department of Environmental Quality ("ADEQ") reported that Los Cerros, had no major deficiencies and was delivering water that meets water quality standards required by 40 CFR 141 (National Primary Drinking

Water Regulations) and Arizona Administrative Code, Title 18, Chapter 4. (See §F of report for discussion and details.)

4. Los Cerros has an approved Cross Connection & Backflow Prevention Tariff on file with the Commission. (See §K of report for discussion and details.)
5. Los Cerros has adequate production and storage capacity to support its existing customer base and reasonable growth. (See §C of report for discussion and details.)
6. Los Cerros had 7.34 percent water loss during the test year which is within the allowable limit of 10 percent. (See §F of report for discussion and details.)
7. Los Cerros does not have an approved Curtailment Tariff on file with the Commission; however, Staff will work with Los Cerros and assist it with filing a Curtailment Tariff. (See §K of report for discussion and details.)

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A. PURPOSE OF REPORT

This report was prepared in response to the application filed by Los Cerros Water Company, Inc. (“Los Cerros” or “Company”) with the Arizona Corporation Commission (“ACC” or “the Commission”) to increase its water rates. The ACC Utilities Division Staff (“Staff”) engineering review and analysis of the subject application is presented in this report.

An inspection of the Company’s water system was conducted by Dorothy Hains, Staff Engineer, accompanied by Company Representative, Steve Carlson (Company’s Field Technician), on October 6, 2015.

B. LOCATION OF THE COMPANY

The Los Cerros water system (“Los Cerros System” or “System”) is located in the vicinity of Oro Valley, northwest of the City of Tucson in Pima County. Figure 1 describes the Certificate of Convenience and Necessity (“CC&N”) area of the System. Figure 2 describes the location of the System relative to other regulated water utilities serving in the area. The CC&N area contains approximately two square-miles including portions of Sections 10, 15, 16 and 22 in Township 12 South (“T12S”) and Range 14 East (“R14E”).

C. DESCRIPTION OF SYSTEM

I. System Description

The System is regulated under Arizona Department of Environmental Quality (“ADEQ”) Public Water System (“PWS”) No. 10-128. It was installed in 1992. It contains five wells, two storage tanks, three booster pump stations and a distribution system to serve approximately 840 customers during the test year ending December 2014. A radio telemetry system was installed to communicate and control operation of three wells. Figures 3A and 3B are schematic drawings of the water system. A detailed plant facility description is as follows:

Table 1 Los Cerros Plant

Active Drinking Water Wells

ADWR No.	Well #	Year Drilled	Casing Size (inches)	Well Depth (ft)	Well Meter Size (inches)	Pump (HP)	Pump Yield (GPM)	Location
55-802342	Wilds Well	1971	10	518	4	30	213	3800 E Wilds Rd
55-805783	Fiesta Well	1990 ¹	8	400	3	10	75	14620 N Fiesta Dr.

55-804734	Lago Del Oro Well	1974	10	396	4	30	190	14970 Lago Del Oro PKWay
55-591958	Silver Buckle	2003	12	564	2	20	90	3546 E Silver Buckle Pl
55-221487	Golder Ranch Well	2012	6	400	3	20	145	4184 Golder Ranch Rd

Note: 1. Well was reported to ADWR in June 1990.

Active Storage, Pumping

Location	Structure or equipment	Capacity
Lago Del Oro Well site (14970 Lago Del Oro PKWay)	Pressure Tank	One 20'000 gallon tank (buried underground)
	Storage Tank	One 60,000 gallon steel tank (buried underground)
	Booster pump station	Two 15-HP
Silver Buckle Well (3546 E Silver Buckle Pl)	Pressure tank (surge tank)	One 5,000 gallon tank
	Storage Tank	One 375,000 gallon steel tank (32' height)
	Booster pump station	One 5-HP pump Two 7.5-HP pump One 30-HP pump (for fire flow use only)
Swan Rd Pressure system (4675 E Wilds Rd)	Pressure tank (surge tank)	One 20,000 gallon tank (partially buried underground)
Wilds pumping station (on Wilds Rd between Desert Sage Rd and High Rock Rd)	Booster pump station	Two 5-HP pumps (in a uncovered Manhole)
Fiesta Well Site (14620 N Fiesta Dr.)	Pressure Tank (surge tank)	5,000 gallons tank

Wilds Well Site (3800 E Wilds Rd)	Pressure Tank (surge tank)	500 gallon tank
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Distribution Mains

Diameter (inches)	Material	Length (feet)
2	Polyvinyl chloride (PVC)	7,360
3	PVC	2,395
4	PVC	25,611
6	PVC	30,341
8	PVC	19,536
12	PVC	588

Meters

Size (inches)	Quantity
$\frac{5}{8} \times \frac{3}{4}$	835
$\frac{3}{4}$	5
1	17
1½	N/A
2	7
3	1
4	N/A
8	N/A

II. System Analysis

The System has a total source capacity of 713 gallons per minute (“GPM”) and storage capacity of 435,000 gallons this capacity is adequate to serve the present customer base and reasonable growth.

D. WATER USAGE

Table 2 summarizes water usage in the Company’s CC&N area. Figure 4 is a graph that shows water consumption data in gallons per day (“GPD”) per customer for the System for the test year period of January 2014 through December 2014.

Table 2 Water Usage

Month	Number of Customers	Monthly Water Sold (in gallons)	Water pumped (in gallons)	Water purchased (in gallons)	Daily Average (in gpd/customer)
Jan 14	836	5,474,000	5,760,000	0	211
Feb 14	835	5,587,000	5,888,000	0	239
Mar 14	833	5,410,000	5,645,000	0	210

Apr 14	839	7,577,000	7,924,000	0	301
May 14	839	7,494,000	7,878,000	0	288
Jun 14	837	8,352,000	9,672,000	0	333
Jul 14	837	8,500,000	10,003,000	0	328
Aug 14	838	7,771,000	7,818,000	0	299
Sep 14	837	6,601,000	7,370,000	0	263
Oct 14	838	6,760,000	7,303,000	0	260
Nov 14	837	6,579,000	6,951,000	0	262
Dec 14	833	5,363,000	5,714,000	0	208
total		81,468,000	87,926,000	0	
Average					267

I Water Sold

Based on information provided by the Company, the calculated highest use is 333 GPD per customer in June and the lowest is 208 GPD per customer in December. The average water usage was 267 GPD per customer.

II. Non-account Water

Non-account water should be 10 percent or less. The Company reported 81,468,000 gallons sold and 87,926,000 gallons pumped, resulting in a water loss of 7.34 percent. This 7.34 percent is within the acceptable limit of 10 percent.

E. GROWTH PROJECTION

Figure 4 depicts the customer growth using linear regression analysis. The numbers of service connections were obtained from annual reports submitted to the Commission. At the end of the test year December 2014, the Company had 833 customers and it is projected that this system could have approximately 834 customers by December 2019. The Company's service area is surrounded by land owned by the State Land and Lago Del Oro Water. The growth is limited. The following table summarizes Staff's projected growth.

Table 3 Actual and Projected Growth

Year	Nos. of Customers	
2000	416	Reported
2001	414	Reported
2002	428	Reported
2003	490	Reported
2004	691	Reported
2005	849	Reported
2006	816	Reported
2007	816	Estimated

2008	816	Reported
2009	815	Reported
2010	828	Reported
2011	827	Reported
2012	835	Reported
2013	833	Reported
2014	833	Reported
2015	831	Estimated
2016	831	Estimated
2017	832	Estimated
2018	833	Estimated
2019	834	Estimated

F. ADEQ COMPLIANCE

In an ADEQ Compliance Status Report dated July 22, 2015, ADEQ reported that the System, PWS No. 10-128, had no major deficiencies and was delivering water that meets water quality standards required by 40 CFR 141 (National Primary Drinking Water Regulations) and Arizona Administrative Code, Title 18, Chapter 4.)

G. ARIZONA DEPARTMENT OF WATER RESOURCES (“ADWR”) COMPLIANCE

Los Cerros System is located in the Tucson Active Management Area. Staff received a Compliance Status Report from ADWR for the Los Cerros System on August 31, 2015. In its report ADWR reported that Los Cerros System is compliant with departmental requirements governing water providers and/or community water systems.

H. ACC COMPLIANCE

A check of the Commission’s Compliance Section database dated September 1, 2015, indicated that the Company had no delinquent compliance items.

I. WATER TESTING EXPENSES

The Company reported its water testing expense at \$4,784 for the test year. Staff used the ADEQ Monitoring Assistance Program (“MAP”) to develop its testing costs based on the following assumptions:

1. MAP will do baseline testing on everything except copper, lead, bacteria, and disinfection by-products.
2. The estimated water testing expenses represent a minimum cost based on no “hits” other than lead and copper, and assume compositing of well samples. If any constituents are found, then the testing costs could dramatically increase. ADEQ testing is performed in 3-year compliance cycles. Therefore, monitoring costs are estimated for a 3-year compliance period and then presented on an annualized basis.

3. MAP fees were based on the ADEQ MAP invoice for calendar year 2014.
4. All monitoring expenses are based on Staff's best knowledge of lab costs and methodology and one point of entry.

Table 4 shows Staff's estimated annual monitoring expense.

Table 4 Water Testing Cost (Los Cerros Water - PWS No. 10-128)

Monitoring – 2 wells & 2 POEDs (Tests per 3 years, unless noted.)	Cost per test	No. of tests per three year period	Total cost per three year period	Annual Cost
Bacteriological – monthly	\$25	180	\$4,500	\$1,500
Inorganics – Priority Pollutants	\$300	MAP	MAP	MAP
Radiochemical – (1/ 4 yr)	\$60	MAP	MAP	MAP
Phase II and V:				
IOC's, SOC's, VOC's	\$2,805	MAP	MAP	MAP
Nitrites	\$25	MAP	MAP	MAP
Nitrates – annual	\$25	MAP	MAP	MAP
Asbestos – per 9 years	\$180	1.67	MAP	MAP
Lead & Copper – annual*	\$33	10	\$330	\$110
TTHM	\$110 ¹	6	\$660	\$220
HHA ₅	\$155 ¹	6	\$930	\$310
Maximum chlorine residual levels	\$0	180	\$0	\$0
MAP Fee				\$2,457.63
Total				\$4,598

Note: 1. Turner Lab charges \$110/unit for testing TTHM and \$155/unit for testing HHA₅.

Water testing expenses should be adjusted to Staff's recommended annual expense amount shown in Table 4 which totals \$4,598.

J. DEPRECIATION RATES

Staff has developed typical and customary depreciation rates within the range of anticipated equipment life. These rates are presented in Figure 6, and should be used to calculate the annual depreciation expense for the Company. Staff recommends that the depreciation rates by individual National Association of Regulatory Utility Commissioners category, as delineated in Figure 6 be used on a going forward basis.

K. OTHER ISSUES

I. Service Line and Meter Installation Charges¹

The Company proposed changes to its existing Service Line and Meter Installation Charges. The Company's proposed rates are within Staff's range of typical rates. Staff recommends approval of the meter and service line installation charges listed under the columns labeled "Company Proposed & Staff Recommended" in Table 5.

Table 5 Service Line and Meter Installation Charges

Meter Size	Current Service Line Charges	Current Meter & Charges	Current Total Meter & Service Line Installation Charges	Company Proposed & Staff Recommended (Service Line installation charge)	Company Proposed & Staff Recommended (Meter installation charge)	Company Proposed and Staff Recommended Total charge
5/8 x 3/4-inch	N/A	N/A	\$240	\$360	\$140	\$500
3/4-inch	N/A	N/A	\$280	\$360	\$180	\$540
1-inch	N/A	N/A	\$360	\$380	\$220	\$600
1½-inch	N/A	N/A	\$450	\$1,000	\$1,000	\$2,000
2-inch	N/A	N/A	\$560	\$1,100	\$1,200	\$2,300
3-inch	N/A	N/A	\$700	\$1,200	\$1,900	\$3,100
4-inch	N/A	N/A	\$1,300	\$1,600	\$3,000	\$4,600
6-inch	N/A	N/A	\$2,800	\$2,100	\$5,000	\$7,100
Over 6-inch	N/A	N/A	N/A	At Cost	At Cost	At Cost

II. Reclassification of Plant

Staff recommends that the plant items listed in Table 6 below be reclassified to the accounts listed in the right most column of the Table.

¹ Service line and meter installation charges are refundable advances.

Table 6

year	Acct #	Vendor	Amount (\$)	Item object	Invoice #	Reclassified to Acct #
2012	307 (Well)	Racken Survey Consultants ("RSC")	131	Survey	201186	303 (Land and Land Right)
2013	307	RSC	225	Draft Survey map	201340	303
2013	307	RSC	225	Draft Survey map	201340	303
2015	307	RSC	570	Survey, easement	210340-2	303
2013	307	RSC	420	Survey, drawing construction map	210340-3	303
2015	307	Home Depot	102.82	Metal roof, rod, 2" conduit (10') , drill bits		304 (Structure and Improvements)
2013	307	Bensen Precast Slab	466.78	Concrete slab		304
2013	307	Home Depot	43.22	Paint (painting well site)		304
2013	307	Crane Machine & Pump ("CMP")	16,275	Installed One 25-HP 460 v Goulds 160L25 pump/motor	8927	311 (pumping equipment)
2013	307	Border State Electric ("BSE")	1,698.15			311
2013	307	RS Catalina Hardware & Supply	50.77			311
2013	307	Santa Rita Steel & Hardware	177.61		0020	311
2015	307	Matthews Consulting & Design ("MCD")	1,500	Electrical		311
2013	307	MCD	200	Well pump	3336	311
2013	307	BSE	73.33	Heater for overload	906284153	311
2013	307	BSE	1,290.97	Heater for overload	906284154	311
2013	307	CHS	28.29	fittings		311
2013	307	Sprinkler World Supply	70.27	300' 3/4" pipe	S3052986.002	320.2 (solution chemical feeders)

2005	311 (pumping equipment)	Crane Machine & Pump Service (CMP)	3,245	One 500 gallon pressure tank		330.2 (pressure tank)
1997	334 (Meters)		1,245			333 (service)
2012	331 (Transmissio n& Distribution Mains)		18,500	Service		333 (service)
2003	307 (Well)	Dana Kepner Co.	1,057	One 4" meter		334 (meters)
2005	347 (Misc Equipment)	Grainger	427.01	One 4" pressure recorder	001-567842-8	334 (meters)
2012	331 (Transmissio n& Distribution Mains)		15,400	Fire hydrants		335 (hydrants)
2008	340 (Office Furniture & Equipment)	American Property Exchange ("APE")	1,400	Computer equipment		340.1 (computer & software)
2008	340 (Office Furniture & Equipment)	APE	1,300	Phone system		340.1 (computer & software)
2008	340 (Office Furniture & Equipment)	APE	1,600	Computer equipment		346 (Communication Equipment)

III. Curtailment Tariff

The Company does not have an approved Curtailment Tariff on file with the Commission; however, Staff will work with the Company and assist it with filing a Curtailment Tariff.

IV. Cross Connection & Backflow Prevention Tariff

The Company has an approved Cross Connection & Backflow Prevention Tariff on file with the Commission.

FIGURE 1 Los Cerros Certificate Service Area

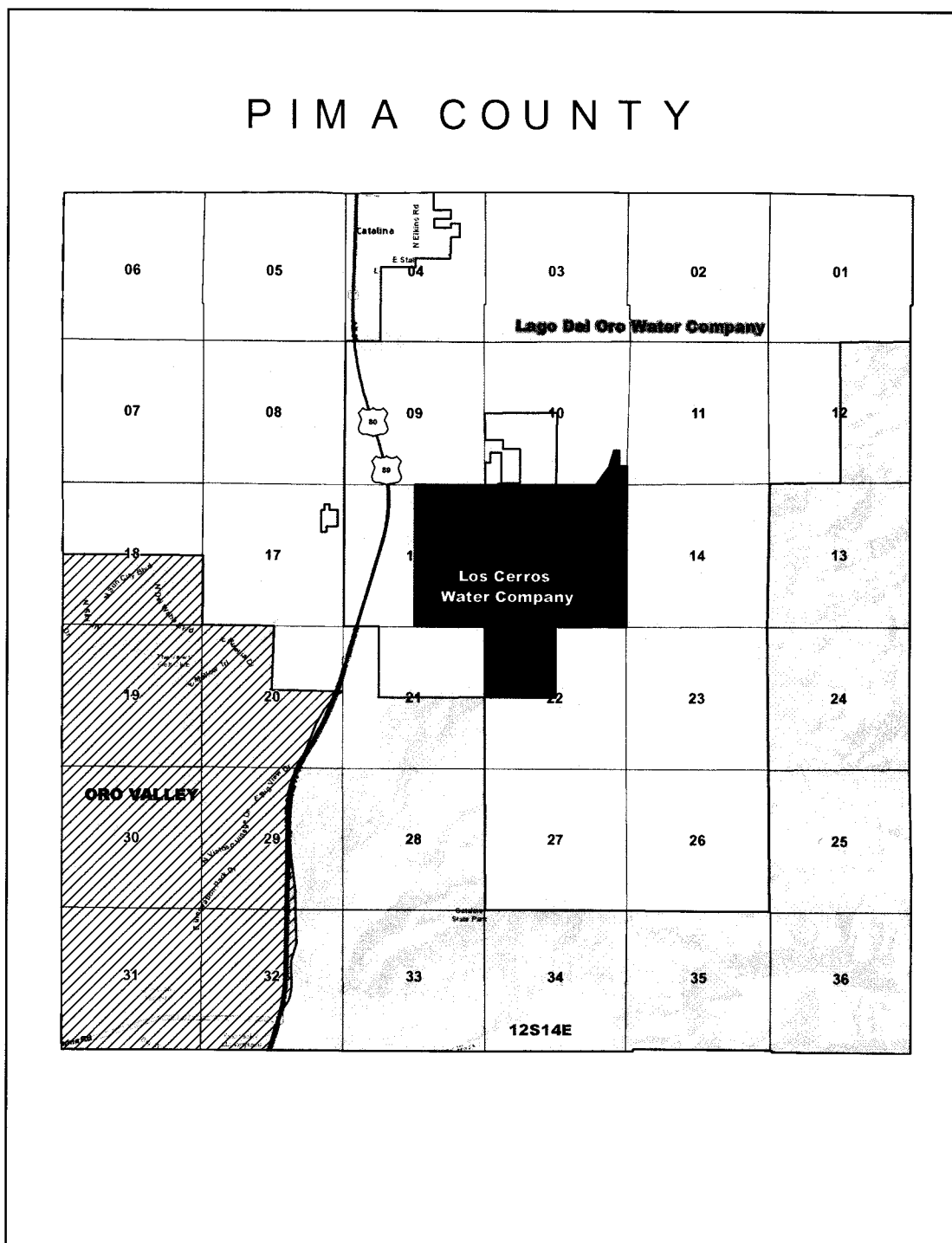


FIGURE 2.
LOCATION OF LOS CERROS SERVICE AREA

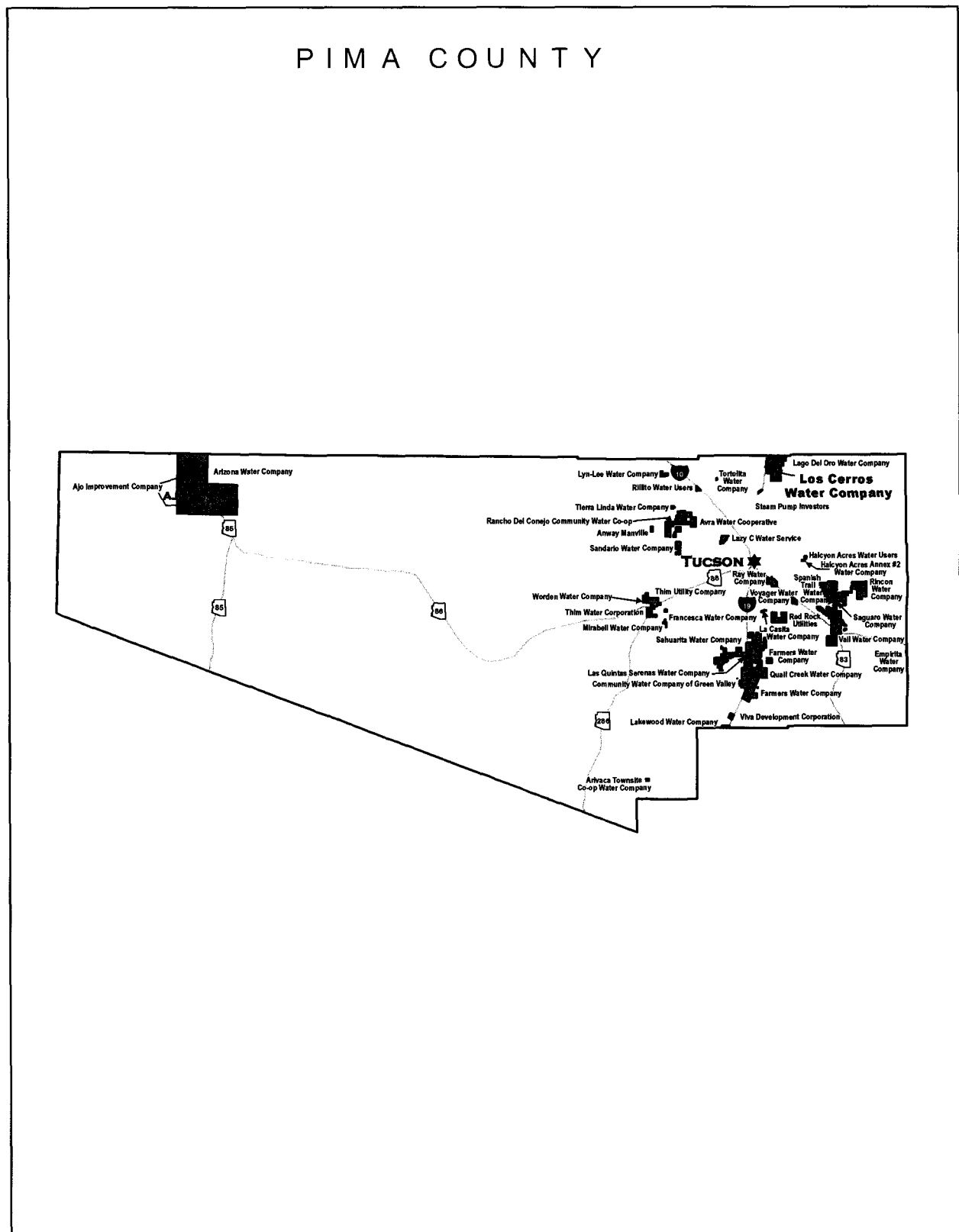


FIGURE 3A SYSTEMATIC DRAWING

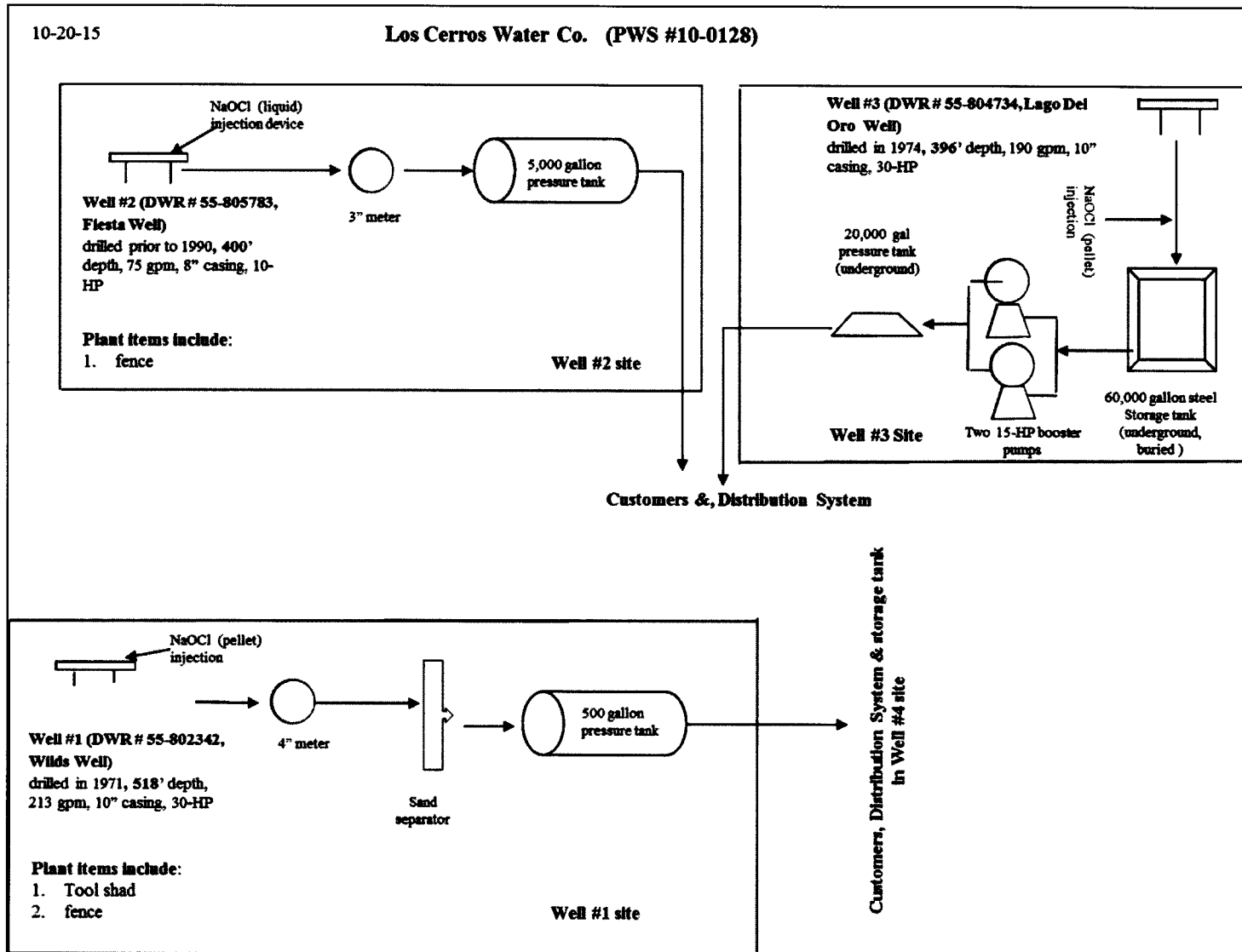


FIGURE 3B SYSTEMATIC DRAWING

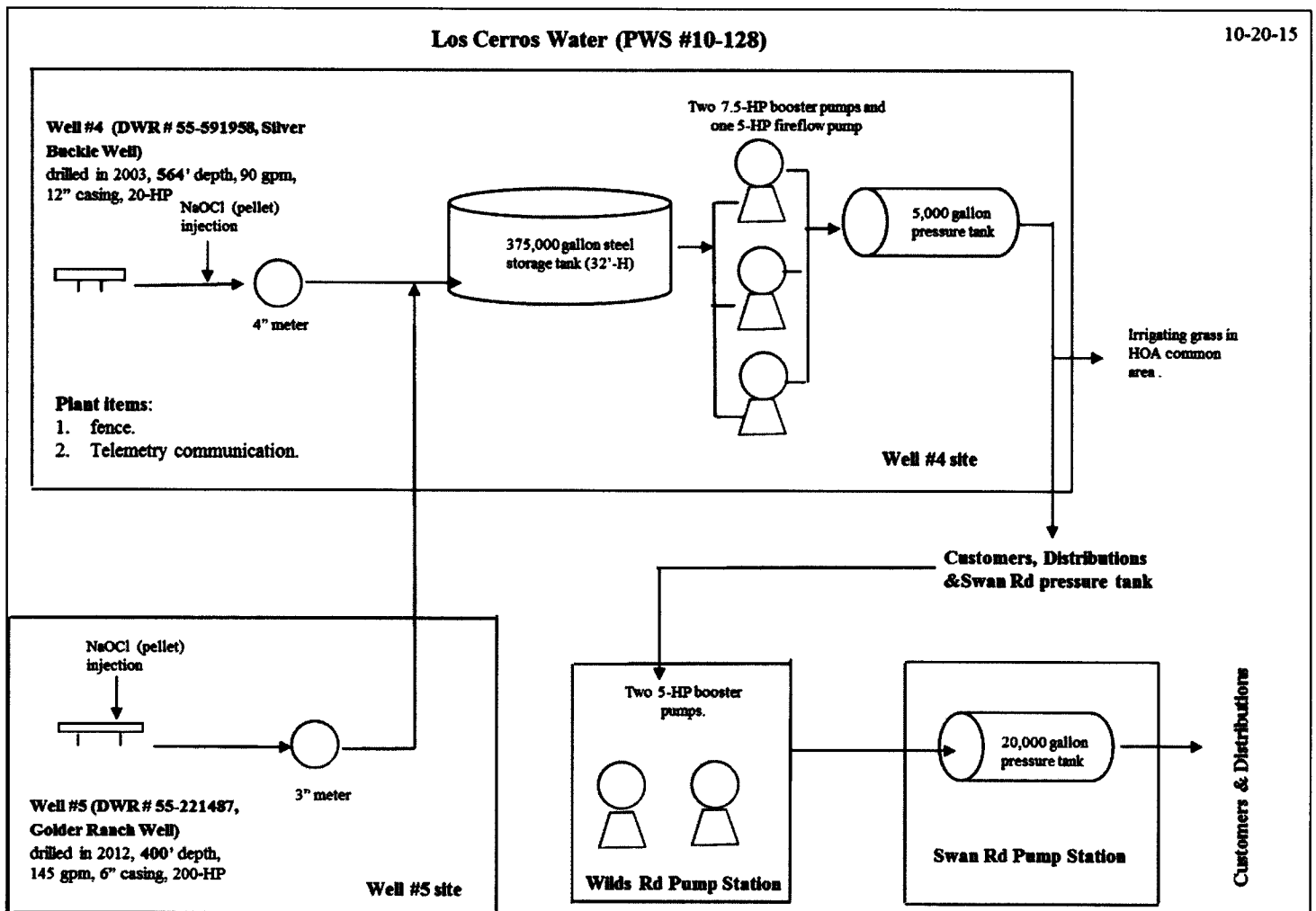


FIGURE 4

WATER USAGE IN LOS CERROS SERVICE AREA

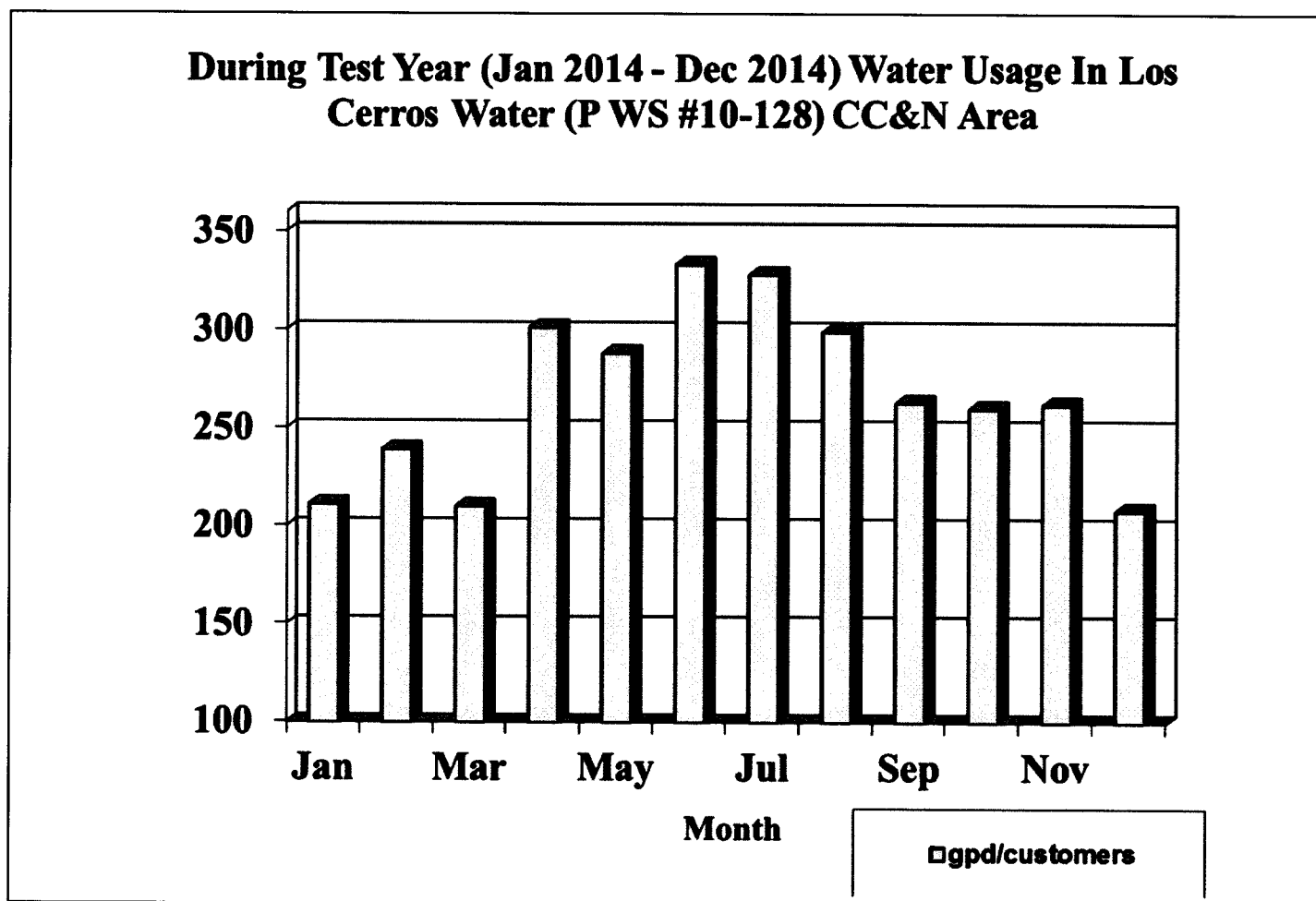


FIGURE 5

ACTUAL AND PROJECTED GROWTH IN LOS CERROS SERVICE AREA

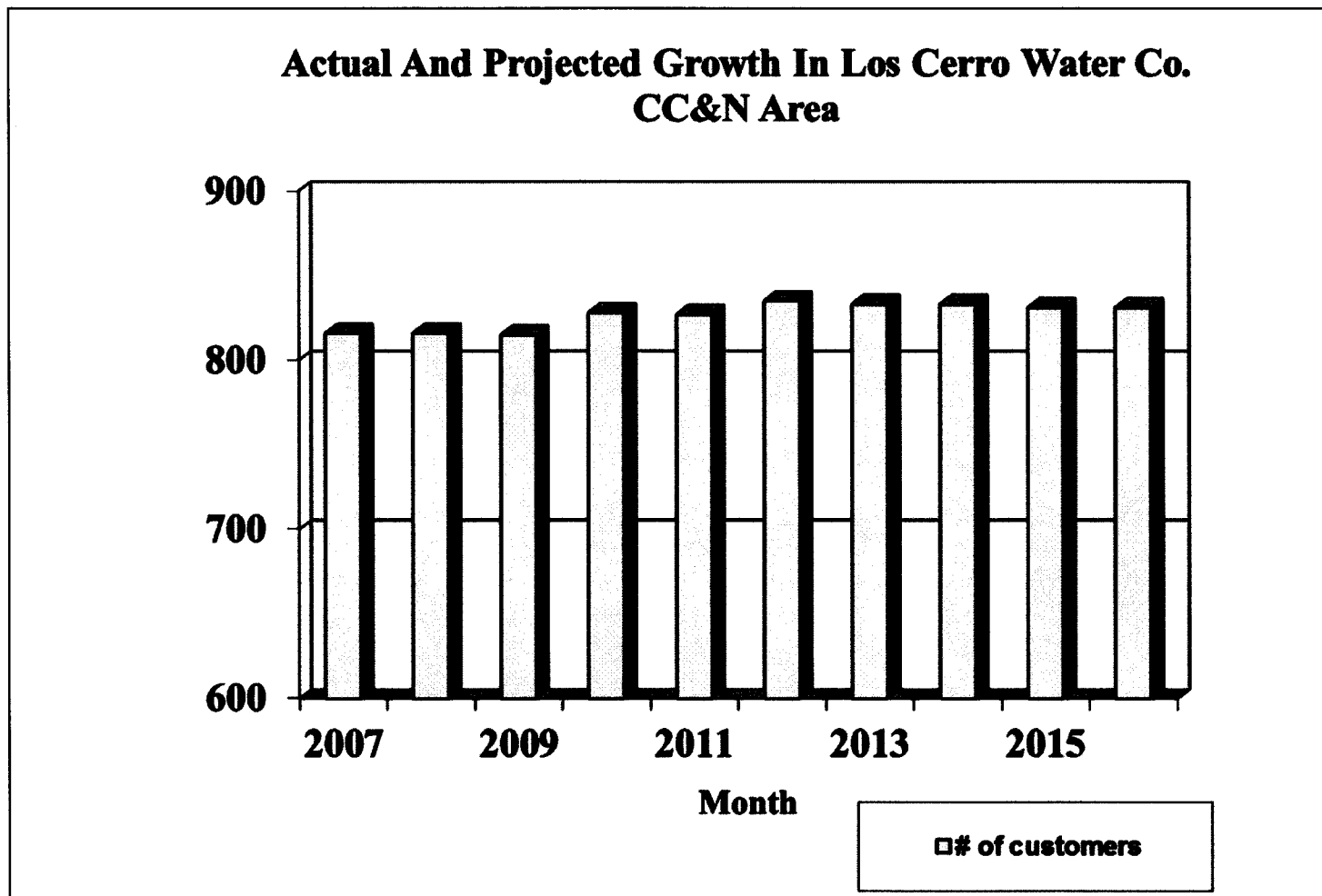


FIGURE 6

Water Depreciation Rates (Los Cerros)

Acct. No.	Depreciable Plant	Decision # 60562 (approved rate %)	Company proposed	Staff Recommended Rate (%)
301	Organization	N/A	N/A	0.00
302	Franchises	N/A	N/A	0.00
303	Land and Land Rights	N/A	N/A	0.00
304	Structures & Improvements	5.00	N/A	3.33
305	Collecting & Impounding Reservoirs	5.00	N/A	2.50
306	Lake, River, Canal Intakes	5.00	N/A	2.50
307	Wells & Springs	5.00	N/A	3.33
308	Infiltration Galleries	5.00	N/A	6.67
309	Raw Water Supply Mains	5.00	N/A	2.00
310	Power Generation Equipment	5.00	N/A	5.00
311	Pumping Equipment	5.00	N/A	12.5
320	Water Treatment Equipment	5.00	N/A	
320.1	Water Treatment Plants	N/A	N/A	3.33
320.2	Solution Chemical Feeders	N/A	N/A	20.0
330	Distribution Reservoirs & Standpipes	5.00	N/A	
330.1	Storage Tanks	N/A	N/A	2.22
330.2	Pressure Tanks	N/A	N/A	5.00
331	Transmission & Distribution Mains	5.00	N/A	2.00
333	Services	5.00	N/A	3.33
334	Meters	5.00	N/A	8.33
335	Hydrants	5.00	N/A	2.00
336	Backflow Prevention Devices	5.00	N/A	6.67
339	Other Plant & Misc Equipment	5.00	N/A	6.67
340	Office Furniture & Equipment	5.00	N/A	6.67
340.1	Computers & Software	5.00	N/A	20.00
341	Transportation Equipment	5.00	N/A	20.00
342	Stores Equipment	5.00	N/A	4.00
343	Tools, Shop & Garage Equipment	5.00	N/A	5.00
344	Laboratory Equipment	5.00	N/A	10.00
345	Power Operated Equipment	5.00	N/A	5.00
346	Communication Equipment	5.00	N/A	10.00
347	Miscellaneous Equipment	5.00	N/A	10.00
348	Other Tangible Plant	5.00	N/A	----